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STATE FOR NEA/ELA AND EEB/IFD/ODF
STATE PASS USTR FRANCESCKI
STATE PASS USAID LAUDATO/NANDY/SCOTT
TREASURY FOR PARODI/BLEIWEISS/AHERN
USDOC FOR 4520/ITA/MAC/ONE
NSC FOR SHAPIRO/MCDERMOTT

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SUBJECT: LEBANON: CABINET FINALLY APPROVES 2009 BUDGET; SENDS TO
PARLIAMENT (ECONOMIC WEEK IN REVIEW, JUNE 8 - 14, 2009)

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2009 BUDGET PASSES

¶1. (SBU) After almost six months of heated discussions, the cabinet approved the 2009 budget during its June 12 session. The budget projects a deficit of approximately 30% of spending and around 10% of GDP. The budget includes appropriations for the Council of the South of around \$40 million -- the reason for the budget's delay and subject of a dispute between Prime Minister Siniora and Parliament Speaker Berri -- in a move which may be interpreted as a victory for Berri.

¶2. (SBU) The budget still requires parliamentary approval, and while the newly elected parliament may take up the 2009 budget law when it convenes, it still has not passed the 2006, 2007, and 2008 budgets, which may have to be considered first. In any event, the GOL has been spending funds using treasury advances and off-budget spending instruments, so whether or not parliament passes the budget, the government will continue to function.

ELECTION RESULTS WELL RECEIVED BY FINANCIAL SECTOR,
ALL AWAIT CABINET FORMATION

¶3. (SBU) Financial markets welcomed the results of the June 7 parliamentary elections. The Beirut Stock Exchange (BSE) saw increased trading of Solidere -- the real estate company whose shares account for 85% of BSE trading -- and bank shares in terms of value and volume on June 9 compared to previous months, BSE president Dr. Fadi Khalaf told us. Khalaf attributed this to the elections having taken place peacefully, and the March 14 victory (i.e. the continuation of international support to Lebanon), which

has also reflected positively on the trading of Global Depository Receipt (GDRs) on the BSE and London markets. The BSE continued to see increased activity throughout the week, though the pace may slow in advance of the upcoming cabinet formation, Khalaf said.

14. (SBU) Bank sources told us demand for Lebanese Lira (LL) picked up following the elections as depositors resumed converting dollar deposits to benefit from higher interest rates on LL deposits. This is a normal reaction to peaceful parliamentary elections, they said, adding that some more time is needed to see whether this positive trend continues. The money market also reacted positively to the outcome of the elections, with great demand for Lebanese paper on June 9, Central Bank Head of Financial Operations Dr. Youssef el Khalil told us. Khalil also noted that demand could be affected by the time it takes to form and the composition of the next cabinet.

15. (SBU) Meanwhile, economic advisor to Parliament Speaker Berri Dr. Ghazi Wazni said the primary results of the elections were positive for the economic and financial climate, reflected in the substantial rise in the price of Solidere shares on June 9. He said the GOL's main economic challenges will include: (a) social disruption and rising unemployment (which he estimates will exceed 17% in 2009); (b) imbalances in the financial situation, the level of public debt, the 2010 budget law; and (c) Paris III reforms (electricity, health, privatization, fiscal reforms). Prominent economic consultant Dr. Toufic Gaspard said reactions to the elections are positive, but he does not expect a significant change in economic policy in the next cabinet. Gaspard said that forming the new cabinet will be difficult and, like the previous cabinet, he does not expect it to give priority to economic issues.

CAMPAIGN SPENDING ESTIMATED AT OVER \$500 MILLION,

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MORE THAN 100,000 CAME TO VOTE

16. (SBU) On June 3, Sabine Oueiss, economic reporter in moderate anti-Syrian An-Nahar newspaper and close to government circles, reported that economic experts estimate electoral spending to have exceeded half a billion U.S. Dollars in cash payments, payment of hospital bills, and other personal services for constituents. This also includes the purchase of airline tickets and lodging for expatriates coming to vote, transportation costs for Lebanese expatriate voters arriving via the Syrian border, as well as transportation to the polling stations.

17. (SBU) Georges Ghanem, news director at moderate television station LBCI, told us June 3, quoting Middle East Airlines Chairman Mohammad El-Hout, that 136,000 Lebanese immigrants came to Beirut to vote. Meanwhile, Civil Aviation director general Hamdi Chaouk told us June 12 that it is not easy to estimate the number of Lebanese immigrants who came just to vote. He said a large number of Lebanese, who lost their jobs due to the global crisis, mostly in the Gulf, returned to Lebanon in the first week of June, which also coincided with the end of the school year. But Chaouk noted that the number of private and chartered planes that landed at Beirut's international airport doubled in the first week of June 2009, compared to the corresponding period in June 2008.

FIVE NEW SWINE FLU CASES ARE TREATED,
NO CHANGES TO BAN ON LIVE PORK IMPORTS

18. (SBU) Press reported that five new cases of swine flu were confirmed in Lebanon. An advisor to the Minister of Health told us June 10 that five people, one from the U.S. and four from Australia, arrived in Lebanon last week and notified the authorities at the airport of their high fever. They were all treated and have now fully recovered. This proves that swine flu can be mild and not necessarily deadly if treated quickly and appropriately, she said.

19. (SBU) The Ministry of Agriculture (MOA) does not plan to amend its April 27 decision banning the importation of live pork products and pork carcasses (except for processed and manufactured pork products), a MOA contact told us June 11.

TELECOM MINISTRY REDUCES FEES TO ENCOURAGE
BROADCAST TRANSMISSION FROM LEBANON

10. (SBU) On June 10, Antoine Boustani, an advisor to the Minister of Telecommunications (MOT), told us the MOT has reduced fees for occasional video and audio transmission from Lebanon by 45% starting early June. This measure aims to make Lebanon competitive with neighboring Arab countries, and thus encourage local, Arab, and international stations to broadcast from Lebanon. This measure will increase state revenues and create jobs, Boustani remarked.

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